

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 EA-10 NEA-11 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03
H-01 SS-15 STR-07 CEA-01 DODE-00 NSCE-00 SSO-00
ICAE-00 INRE-00 /111 R

DRAFTED BY EB/IFD/OMA:BCROWE:JVM
APPROVED BY EB/IFD/OMA:JABWINDER
NEA/PAB:HLUCIUS
AID/ASIA:LDEAN
TREASURY:ADRESS

-----130875 262238Z /73

O R 262150Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD IMMEDIATE
INFO AMEMBASSY TEHRAN
AMEMBASSY LONDON
AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY OTTAWA
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 135204

E.O. 11652: GDS

TAGS: EFIN, PK

SUBJECT:PAKISTAN DEBT RESCHEDULING REQUEST

REF: STATE 133815

1. PAKISTAN'S REQUEST FOR MULTILATERAL DEBT RELIEF
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IS SCHEDULED TO BE ADDRESSED AT A JUNE 1-2 MEETING OF
THE WORLD BANK'S PAKISTAN CONSORTIUM. AS EMBASSY
AWARE, USG WILL NOT PARTICIPATE IN ANY RESCHEDULING
ARRANGED AT THE JUNE 1-2 MEETING. THIS POSITION HAS
BEEN COMMUNICATED TO PAKISTANI AMBASSADOR YAQUB-KHAN
IN MEETINGS WITH AID GOVERNOR GILLIGAN AND WITH STATE
UNDERSECRETARY COOPER. (SEPTTEL FOLLOWS SUMMARIZING

THESE MEETINGS.) IN ORDER TO INSURE USG VIEWS ARE ACCURATELY PRESENTED TO GOP, REQUEST YOU ALSO ADVISE APPROPRIATE OFFICIALS OF USG POSITION. IN THIS CONTEXT, YOU SHOULD DRAW FROM THE FOLLOWING STATEMENT WHICH HAS BEEN DRAFTED FOR USE BY HEAD OF USG DELEGATION AT JUNE 1-2 MEETING.

2. DRAFT STATEMENT BY U.S. DELEGATION AT MEETING OF PAKISTAN CONSORTIUM:

PAKISTAN DEBT RELIEF

FIRST OF ALL, LET ME SAY THAT WE RECOGNIZE THAT THIS IS AN IMPORTANT QUESTION FOR ALL OF US. THE PAKISTAN ECONOMY IS HIGHLY DEPENDENT AT THIS TIME ON EXTERNAL RESOURCES FOR ITS CONTINUED DEVELOPMENT. GIVEN THE POSSIBLE DIFFERENCES IN ASSESSMENTS OF PAKISTAN'S ECONOMIC SITUATION AND DIFFERENT APPROACHES TO DEBT RELIEF, I WANT TO TAKE THIS OPPORTUNITY TO EXPLAIN MY GOVERNMENT'S VIEWS ON THIS QUESTION.

THE UNITED STATES PARTICIPATES IN MULTILATERAL DEBT RENEGOTIATIONS ONLY IN EXTRAORDINARY CIRCUMSTANCES WHERE DEBT REORGANIZATION IS NECESSARY TO ENSURE PAYMENT. AFTER A CAREFUL ASSESSMENT OF PAKISTAN'S REQUEST FOR FRESH DEBT RELIEF, ITS CURRENT ECONOMIC SITUATION, AND

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IMMEDIATE PROSPECTS, WE CONCLUDE THAT PAKISTAN IS NOT EXPERIENCING AN ACUTE DEBT CRISIS, AND THAT IN ALL LIKELIHOOD IT WILL BE ABLE TO CONTINUE FINANCING NECESSARY IMPORTS AND MEET ITS DEBT SERVICE OBLIGATIONS IN THE YEAR AHEAD.

IN LOOKING AT THE PAKISTAN SITUATION, WE HAVE BEEN STRUCK BY THE FAVORABLE IMPACT OF THE APPROXIMATE 500 MILLION DOLLARS INCREASE IN WORKERS REMITTANCES DURING THE PAST YEAR (FROM UNDER 600 MILLION DOLLARS IN PAKISTAN'S LAST FISCAL YEAR TO OVER 1.1 BILLION DOLLARS THIS FISCAL YEAR). THIS HAS BEEN REFLECTED IN A 200 MILLION DOLLARS INCREASE IN FOREIGN EXCHANGE RESERVES DURING THE NOVEMBER-APRIL PERIOD, COMPARED TO A DECLINE OF 100 MILLION DOLLARS IN THE YEAR-EARLIER PERIOD. IT ALSO SEEMS LIKELY THAT THERE WILL BE A SIGNIFICANT FURTHER INCREASE -- OF PROBABLY 200 TO 400 MILLION DOLLARS -- IN REMITTANCES DURING THE COMING FISCAL YEAR. THE MAGNITUDE OF THIS VERY FAVORABLE (AND CONSISTENTLY UNDERESTIMATED) DEVELOPMENT SEEMS TO US TO PROVIDE PAKISTAN WITH THE CAPABILITY OF MEETING THE 235 MILLION DOLLARS INCREASE IN DEBT SERVICE MOST RECENTLY ESTIMATED

BY THE WORLD BANK FOR THE COMING FISCAL YEAR (FROM 331 TO 566 MILLION DOLLARS, ACCORDING TO THE DEBT MEMO CIRCULATED BY THE IBRD). MOREOVER, WE BELIEVE THERE IS POTENTIAL FOR PAKISTAN'S EXPORTS TO RISE BEYOND PRESENT PROJECTIONS, ESPECIALLY WITH THE ADOPTION OF APPROPRIATE ECONOMIC POLICIES.

WE RECOGNIZE, OF COURSE, THAT THERE ARE UNCERTAINTIES IN THIS SITUATION, NOT ONLY FOR REMITTANCES AND EXPORTS, BUT FOR THE GOVERNMENT'S PLANS FOR DEALING WITH PAKISTAN'S DOMESTIC ECONOMY. THAT IS WHY WE HAVE TOLD THE GOVERNMENT OF PAKISTAN THAT WE ARE WILLING TO REEXAMINE THE MERITS OF PAKISTAN'S SITUATION LATER THIS YEAR. MEANWHILE, WE URGE CONFIDENTIAL

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THE GOVERNMENT OF PAKISTAN TO CONTINUE DISCUSSIONS WITH THE IMF TO ESTABLISH A PROGRAM WHICH WILL LAY THE BASIS FOR LONG-TERM ECONOMIC RECOVERY.

WE HAVE NO OBJECTION TO OTHER CREDITORS PROVIDING DEBT RELIEF IF THEY WISH. WE UNDERSTAND THAT SOME CREDITORS MAY EVALUATE PAKISTAN'S BALANCE OF PAYMENTS PROSPECTS SOMEWHAT DIFFERENTLY OR THAT SOME CREDITORS MAY HAVE A DIFFERENT APPROACH THAN THE UNITED STATES TO PROVIDING DEBT RELIEF.

3. FOR TEHRAN: IF GOI RAISES ISSUE OF USG POSITION ON PAKISTAN'S RESCHEDULING REQUEST, YOU SHOULD DRAW UPON THE ABOVE IN YOUR REPLY. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBTS, NEGOTIATIONS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE135204
Document Source: CORE
Document Unique ID: 00
Drafter: BCROWE:JVM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780223-0823
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780512/aaaaakds.tel
Line Count: 150
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f6873895-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 133815
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2543763
Secure: OPEN
Status: NATIVE
Subject: PAKISTAN DEBT RESCHEDULING REQUEST
TAGS: EFIN, PK
To: ISLAMABAD
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f6873895-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014